

COMMODORE

commodore international limited

A person wearing a white lab coat and white gloves is working on a glowing orange cylindrical device. The device has a white label with a large number '1' and some text. The person is holding a thin rod or tube that is inserted into the device. The background is dark and industrial.

Annual Report 1980

The Company

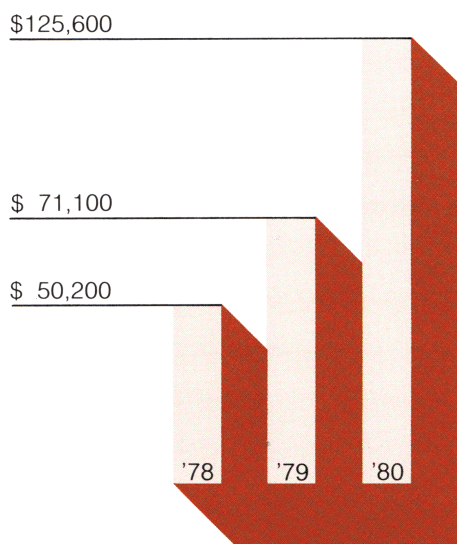
Commodore International Ltd. is a fully integrated manufacturer of advanced microcomputer systems, consumer electronics products, semiconductors and office equipment. Manufacturing facilities are located in North America, Europe and the Far East. Marketing is worldwide. Research expenditures comprise more than 5% of sales and are devoted primarily to the development of new products using solid state integrated circuitry, computer technology and consumer electronics.

About the Cover: *Processing silicon wafers in MOS Technology's new 4-inch wafer furnace is only one step in the manufacture of large-scale integrated (LSI) circuits. . . circuits that contain up to 64,000 bits of information on a single semiconductor chip. Developing these chips is difficult and complex but Commodore does it, and the solutions appear in virtually every product we make. This year, in addition to meeting our own internal requirements we also supplied major outside customers with RAMs, ROMs, microprocessors, timekeeping circuits and more.*

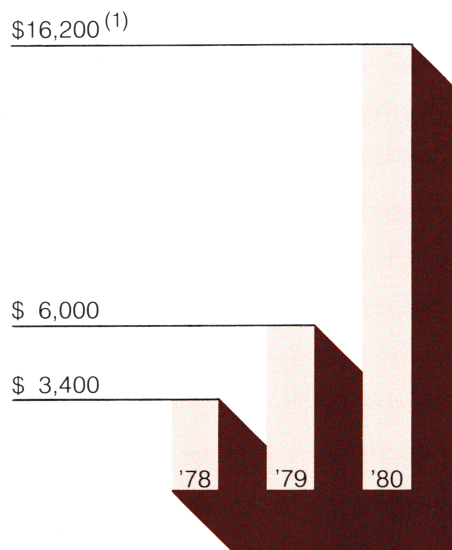
Financial Highlights

Year Ended June 30	1980	1979	1978	% Change 1980 vs. 1979
Net Sales	\$125,600,000	\$71,100,000	\$50,200,000	+ 76.7%
Gross Profit Margin	40.3%	32.5%	30.5%	—
Net Profit Margin (1)	12.9%	8.4%	6.8%	—
Net Income (1)	\$ 16,200,000	\$ 6,000,000	\$ 3,400,000	+170.0%
Shareholders' Equity	\$ 35,500,000	\$20,800,000	\$12,300,000	+ 70.7%
Earnings Per Share (1)(2)	\$ 4.68	\$ 1.86	\$ 1.08	+151.6%
Average Shares Outstanding (2)	3,465,000	3,240,000	3,157,000	—
Quarterly Earnings Per Share (1)(2)	1979-80	1978-79	1977-78	
September 30	\$0.90	\$0.36	\$0.23	
December 31	\$0.91	\$0.43	\$0.25	
March 31	\$1.14	\$0.45	\$0.27	
June 30	\$1.73	\$0.62	\$0.33	

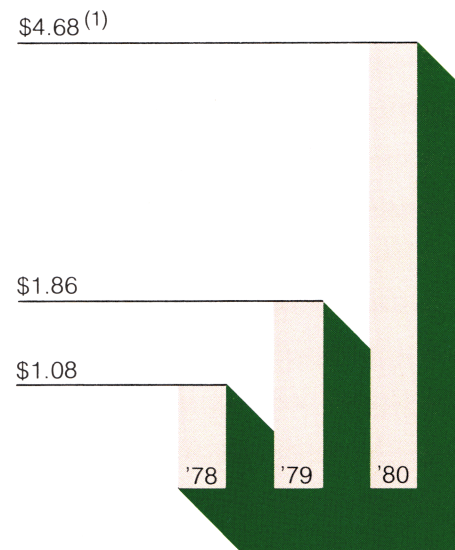
Net Sales (In thousands)



Net Income Before Extraordinary Items
(In thousands)



Earnings Per Share Before Extraordinary Items
(In dollars)



(1) Includes credit for reversal of United Kingdom (U.K.) taxes of \$1,700,000 (\$0.50 per share) in fiscal 1980 and excludes extraordinary items.

(2) All per share figures adjusted for stock splits made during fiscal 1980.

Management Report To Shareholders

Commodore International Limited ended Fiscal 1980 with the highest revenues and net income in the Company's 22 year history. This outstanding record of growth is a direct result of our carefully planned involvement in several vertically-integrated technologies, coupled with our highly successful worldwide marketing organization and continued extensive investment in new product research and development.

Sales for the fiscal year ended June 30 were \$125,600,000, an increase of 77% over fiscal 1979's revenues of \$71,100,000. Net income before extraordinary items rose 170% to \$16,200,000 compared to last year's record profits before extraordinary items of \$6,000,000. On a per share basis, net income before extraordinary items totalled \$4.68 (including \$.50 from reversal of U.K. taxes) versus \$1.86 in fiscal 1979. (All per share figures have been adjusted for two stock splits during fiscal 1980.)

The Financial Highlights on page 1 graphically illustrate Commodore's record of growth. We fully anticipate maintaining this trend in the future and are well positioned to do so.

Prior to Commodore's development into a fully integrated manufacturer of computer systems and consumer products in 1977, the Company was a successful but limited participant in its industry, and the financial results over the years reflected the Company's fundamental limitations. The decision to become fully integrated, to the extent of man-

ufacturing products developed by our own research and development and marketed through our worldwide sales and service organization, has thrust Commodore into a leading position in its principal markets. Our financial results over the last several years bear witness to the success of our redirected product manufacturing and marketing emphasis.

Commodore today is divided into four basic operating divisions: Computer Systems, Consumer Products, Electronic Components, and Office Equipment. Each of these divisions is reviewed in detail on subsequent pages of this Report.

The Computer Systems Division "created" the personal computer industry with the introduction of the PET® computer three years ago. The outstanding world-wide acceptance of this pioneer computer and its peripheral equipment prompted Commodore to invest extensive resources in research and development of new computer products. Several of these new products were introduced in fiscal 1980, with more to come in the current fiscal year. Consequently, in the foreseeable future we expect the Computer Systems Division to remain the primary contributor to Commodore's sales and earnings growth.

The Consumer Products Division manufactures such items as electronic calculators and watches, but the Division's most exciting new product in recent years is our programmable electronic thermostat. This energy controlling device, first introduced to the consumer public

in June 1980, has met with an enthusiastic response. The thermostat is anticipated to be our strongest selling consumer item, although several other new products are scheduled for fiscal 1981.

One of Commodore's major strengths as a company is our ability to design and produce electronic components used in our own computers and consumer products. This vertical integration of technologies is not only cost efficient from a manufacturing standpoint, but also fuels our research efforts to develop new and innovative products. This year, the Electronic Components Division greatly expanded its capacity to produce semiconductor components, CMOS modules and liquid crystal displays. Despite a doubling of our internal requirements for semiconductor devices, our increased capacity enabled us to provide large shipments to outside customers during the last half of the fiscal year. Continuing demand for electronic components—and our ability to meet that demand—leads us to expect further growth from this Division in fiscal 1981 and beyond.

The Office Equipment Division manufactures primarily budget-priced steel office equipment in Canada, and reported another record year in sales and earnings in fiscal 1980. Continuing heavy demand for this division's products prompted a major capital expenditure/automation program begun this year and scheduled for completion during fiscal 1981.

Commodore continues to evolve. In marketing, our success is well-documented. Our philosophy of providing close geographic support to our strategic markets internationally has helped us to become the multinational company we are today . . . and will help us become even stronger in the future.

In manufacturing, as in marketing, we are beginning to "localize" our activities in key locations around the world. In 1981 we will establish production facilities to manufacture computer products in both Europe and Japan and will explore the feasibility of establishing a new semiconductor facility in an overseas market.

Financially, Commodore has never been stronger. We have the financial resources to support all areas of development. Our current customer demand, based upon existing products, remains strong. This, combined with several new products we intend to introduce leaves us highly optimistic for another record year.

To everyone associated with Commodore—employees, customers, suppliers, shareholders—thank you for your continuing support and for helping to make this an exciting, successful organization.

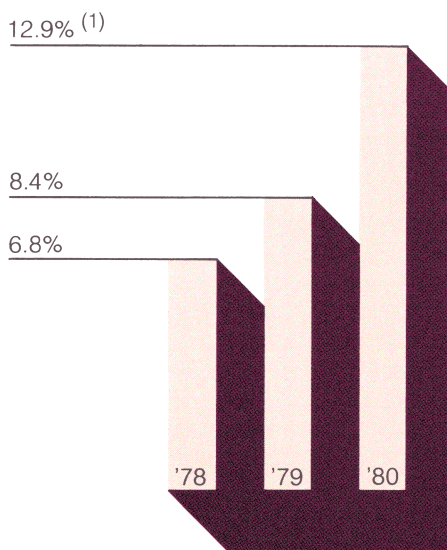
Sincerely,

Jack Tramiel
 Jack Tramiel
 President

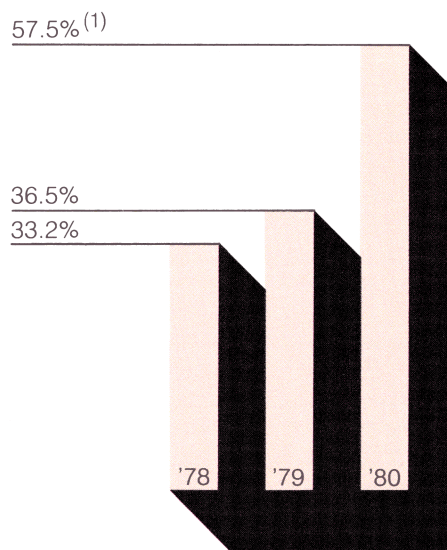
September 15, 1980

Performance Measurements Fiscal Years Ended June 30th

Net Profit Margin Before Extraordinary Items (Percent)



Return on Average Shareholder's Equity (Percent)



(1) Includes reversal of U.K. taxes in fiscal 1980.

The Charts above are key indicators of the strength and growth of Commodore International. The increase in net profit margin derives from Commodore's continued strong emphasis on maximum productivity and effective cost control.

Commodore's return on average shareholders equity has also risen substantially in the past four years and at 57.5% is currently among the highest return for any publicly owned corporation.

Commodore Worldwide

Computer Systems (66% of Sales)

The Computer Systems Division was again the largest contributor of revenues in fiscal 1980, accounting for 66% of sales compared to 49% last year. These results confirm our decision several years ago to introduce and market the world's first self-contained personal computer system, the PET®... and subsequently the CBM business computer.

The fourth quarter introduction of our new "CBM 8000 Series" business computer along with continuing strong sales of the PET® enabled us to increase our dominant position in the worldwide microcomputer market... although the true impact of the new computer will not be felt until fiscal 1981 when we begin marketing this product as a total business "system" with additional peripherals and software.

To keep pace with our dramatic expansion and prepare us organizationally for continued smooth growth in the future, we have completely reorganized our computer systems division. Operations and marketing have been moved with our executive headquarters to Valley Forge, Pennsylvania; manufacturing, engineering and research & development will remain at Santa Clara, California. New support personnel have been

added to develop untapped vertical markets in the United States. In June, we converted our U.S. private distributor system to a network of Commodore owned and operated distribution centers, providing better control of the distribution process and closer geographical support to our dealers and customers.

As the leading supplier of microcomputers in Europe, it was appropriate for us to initiate a manufacturing activity on that continent. Consequently, we've acquired a 90,000 sq. ft. manufacturing plant in Braunschweig, West Germany, where we will eventually manufacture Commodore computers sold in our European markets. The production efficiencies of engineering and manufacturing a European product in a European location are obvious.

Electronic Components (15% of Sales)

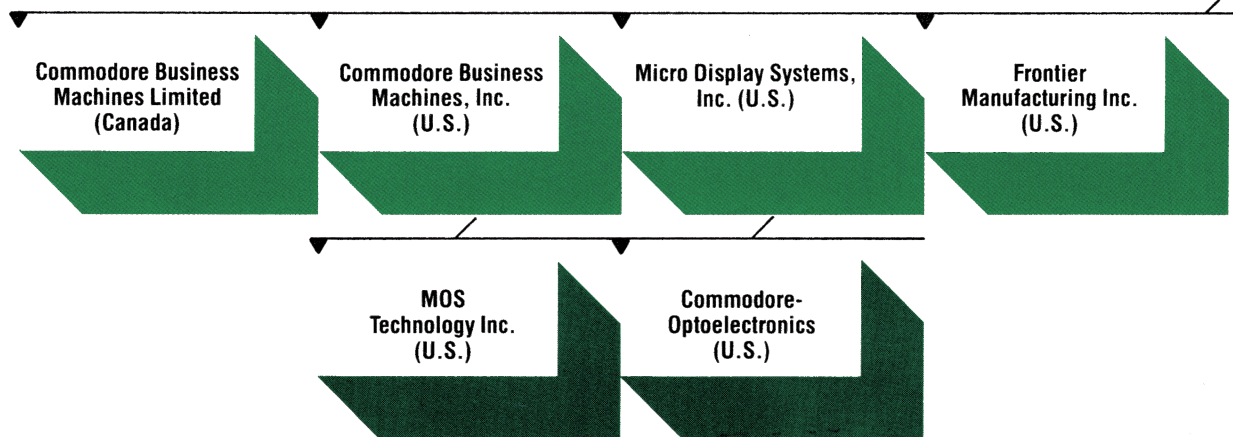
Commodore's Electronic Components Division manufactures microprocessors, general logic and timekeeping circuits, NMOS and CMOS LSI semiconductors, liquid crystal displays (LCD's), Random

Access Memory (RAM) and Read Only Memory (ROM) chips. The 6502 microprocessor developed by our MOS Technology subsidiary has become an industry standard used in a wide variety of microcomputers, including the PET/CBM. Our liquid crystal displays and CMOS chips are used primarily in watch modules sold to the Hong Kong/Far East market. Our RAMs and ROMs are used in computer memory systems, both internally and by outside customers.

This year, MOS Technology began producing a 64K ROM... a semiconductor device which can store up to 64,000 separate bits of information on a single component. Industry sources report that worldwide sales of ROM devices alone are expected to more than double by 1982, to \$2 billion.

Commodore Inter

Commodore Elec
(Bahamas)



Frontier Manufacturing, which designs and produces low-power CMOS chips used primarily in watches, calculators and potentially handheld games and battery-driven computers, also supplies a high growth market. Future demand for multi-function low-power CMOS chips is expected to increase dramatically.

In response to the soaring demand for electronic components—and our own rising needs—we launched a major expansion program throughout the division to increase our production capacity. As a result, this year we not only met our internal requirements for semiconductor devices (up 100% from last year) but began supplying outside customers on a regular basis during the last half of the fiscal year.

Commodore's Optoelectronics subsidiary, which manufactures liquid crystal displays (LCD's) for watches and calculators, also quadrupled its capacity this year. Our ability to produce LCD's has provided us with an important technology which we can apply not only to watches and calculators but also to energy-controlling products and even computers. This is another example of vertical integration, and another area where every new development suggests a potential new product.

Consumer Products (9% of Sales)

The Consumer Products Division maintained its market position despite adverse conditions in the watch and calculator industries, caused by recessionary factors and a temporary market saturation. In 1981, the division will introduce a new line of watches and calculators which combine "state of the art" technologies with aesthetic and functional design, aimed at recapturing a larger share of these highly competitive markets.

An area which we view as a major high-growth market in the coming decade is *energy conservation electronics*. We are currently drawing upon our expertise in microelectronics and other technologies to produce an entire line of energy related products for introduction during fiscal 1981 and beyond.

The first product in this category is our Commodore "energy computer," a programmable electronic thermostat which can reduce the cost of heating/cooling a home or office by up to 30 percent. The energy computer is expected to have a significant impact on consumer product sales in the coming fiscal year.

Office Equipment (10% of Sales)

Sales of our Canada based Office Equipment Division reached record levels in fiscal 1980. This division is the number one producer in Canada of budget-priced steel office equipment, and also manufactures a variety of OEM consumer products. The popularity of low-priced office furniture in a recessionary year, and the ability of this division to produce and sell a variety of products not only in Canada but in other countries as well suggests higher sales again in the coming year.

national Limited

tronics Limited

**Commodore
Business Machines
(U.K.) Ltd.**

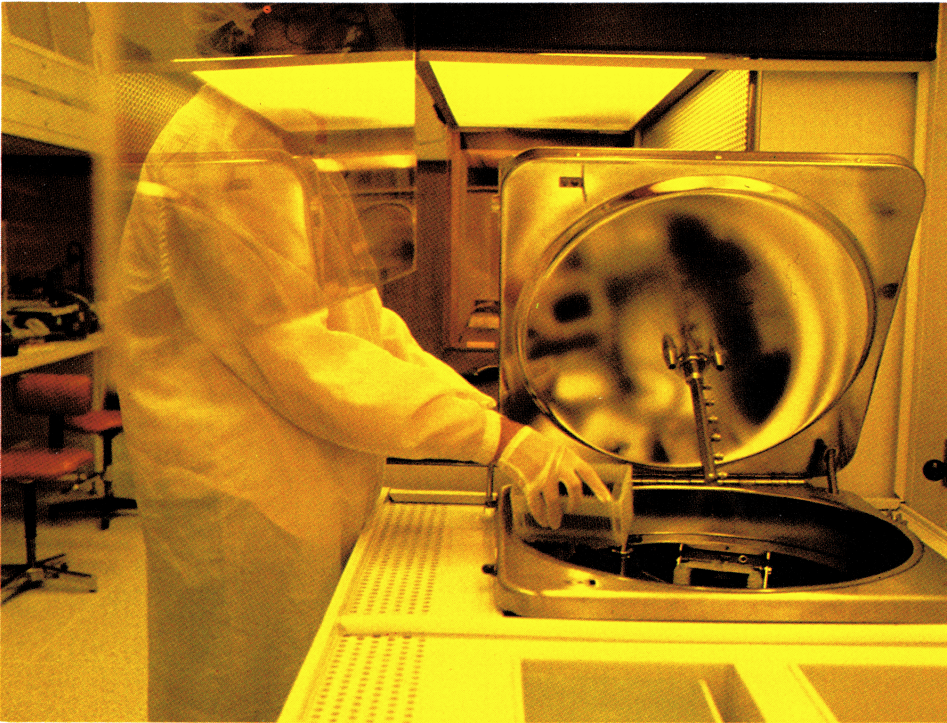
**Commodore
Büromaschinen GmbH
(Germany)**

**Commodore
Japan Limited
(Japan)**

**Commodore
Electronics (H.K.) Ltd.
(Hong Kong)**

**Commodore
AG Schweiz
(Switzerland)**

Research and Development



Special "darkroom" lighting conditions are required by the photo lithography processes used to etch the surface of the light-sensitive silicon wafers.

Commodore invested \$6.6 million (5 percent of total sales) in research and development during fiscal 1980.

These research dollars are particularly well spent since, as a vertically integrated company, we derive multiple returns from each new product we develop. A few years ago, for example, it was MOS Technology's 6502 "Computer-on-a-Chip" microprocessor which gave rise to the now-famous PET computer system.

One of the best recent examples of this integrated approach to R&D is the semiconductor group's Video Interface Chip (VIC) which combines ROM, and video circuitry RAM addressing on the same integrated circuit and facilitates interfacing of a computer to a standard color television set. The result is a new generation of low-cost computers which may be the most important development in personal computing since the introduction of the original PET.

In the field of energy control, our electronic programmable thermostat

is another "hybrid" product which incorporates multiple technologies.

In our Electronic Components Division, research is focused on developing new products like MOS Technology's 64K ROM and Video Interface Chip, Frontier Manufacturing's "melody" chip and other low power multi-function CMOS chips, and multi-function liquid-crystal displays provided by Optoelectronics. Considerable effort is also devoted to new semiconductor technologies such as CMOS silicon gate which represent "state-of-the-art" in the industry.

In 1981, MOS expects to begin replicating its NMOS products in CMOS SI-gate form. CMOS (complementary metal oxide semiconductor) is a low-power semiconductor currently used in battery powered watches, calculators and games, which may eventually provide the basis for battery powered "hand held" computers.

CMOS may be produced via metal gate or silicon gate. Frontier Manufacturing is expected to augment its CMOS metal gate products with CMOS silicon gate during the coming year.

Commodore's success is founded on a strong research and development effort, and we are committed to maintaining our position as a leader in the development of new technologies and the products they inspire.

These important activities—and achievements—are a tribute to our outstanding research staff, which is decentralized into several creative engineering teams within our operating divisions. This decentralization provides us with a wealth of new product ideas from several "independent" sources and enables us to tie R&D activities more closely to manufacturing, process engineering and marketing within each division.



New RAM and ROM memory circuits are checked for technical accuracy.

Manufacturing & Production

Several major projects were undertaken in fiscal 1980 to improve and expand our production facilities. Virtually every division of the company has been involved in, and will benefit from, these capital improvement programs which affect not only the quantity of products we are able to produce, but also their quality and complexity.

Expenditures on plant and equipment in fiscal 1980 totalled \$10.6 million and are budgeted at \$13 million for fiscal 1981.

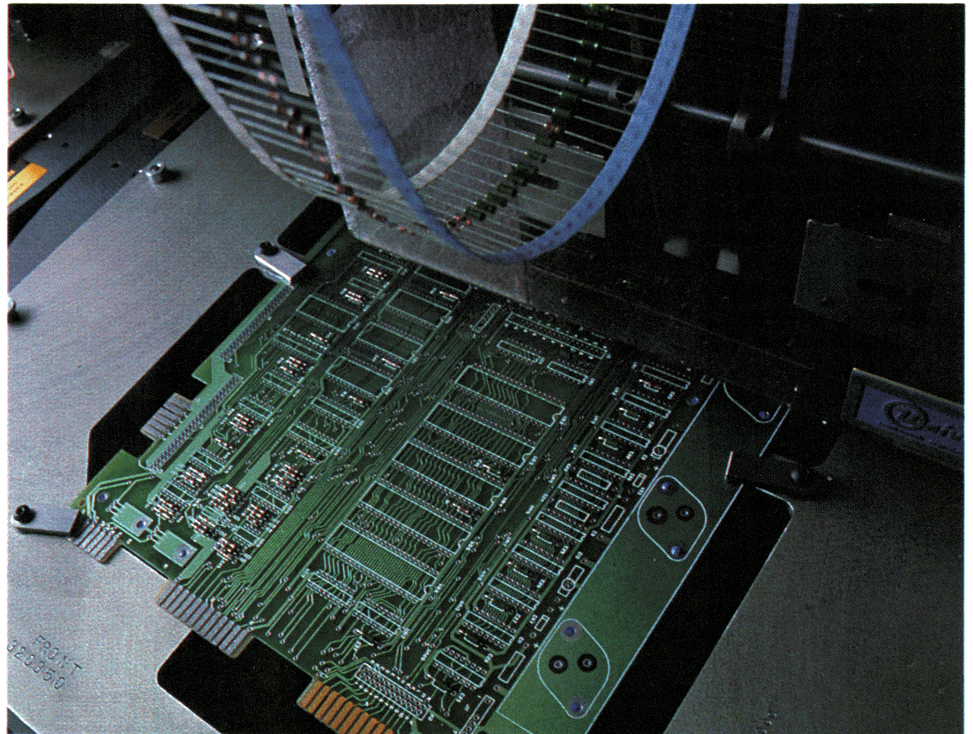
By the end of the year, we had completed about 75 percent of a \$4 million capital improvement program at our MOS Technology plant in Valley Forge, Pennsylvania which manufactures primarily semiconductor devices for sale to outside customers and for use in Commodore products. Improvements included renovation, refurbishing and expansion of the entire plant, and the introduction of new processing technologies which cut our manufacturing costs in half. Significant production efficiencies came from the expansion from "3" to "4 inch wafer" processing facilities. As an indication of the efficiencies involved, a 4 inch wafer may contain 1.7 times more semiconductor chips than a 3 inch wafer.

Our Frontier Manufacturing subsidiary also doubled its capacity during the past year.

We are equally optimistic about our Optoelectronics liquid crystal display facility in Dallas, Texas, which begins fiscal 1981 with the capacity to produce up to 1 million LCD's *per month*.

In Canada, our Office Equipment Division initiated a \$2.5 million capital investment program which will automate our production facilities and enable us to meet continuing strong demand for the division's products.

In Hong Kong, we stopped manufacturing consumer products and began "packaging" (bonding) our



own semiconductors, which provides faster turnaround and better control of our products. This year we also had our first "China connection" —with partial processing of liquid crystal displays occurring in Canton, People's Republic of China.

In 1981, in addition to the programs already cited, we will: construct a new 75,000 sq. ft. building in Norris-town, Pennsylvania which will house a U.S. computer manufacturing plant; complete a new 27,000 sq. ft. computer manufacturing facility in Dallas, Texas; begin manufacturing computer products in Braunschweig, West Germany; and explore the feasibility of establishing a semiconductor facility in Europe.

As part of Commodore's company-wide capital investment program, new automatic insertion equipment was installed at the company's computer production facility in Santa Clara, California.



Tiny integrated circuits contain permanent (Read-Only) and temporary (Random-Access) memory circuits called ROMs and RAMs . . . the building blocks of modern computers.

New Products



Three major new computer products were introduced during fiscal 1980—The CBM 8000 series 80-column computer; 8050 1-Megabyte floppy disc drive; and telecommunications modem. The 80-column computer with high-capacity disc unit represents a major entry in the business computing field. The new modem enables two or more computers to “talk” to each other, and provide access to time sharing and tele-computing services.

Computer Systems

The most significant new product entry in our Computer Systems Division during fiscal 1980 was our 8000-series business computer. The CBM offers commercial computing features previously available on computers costing 3 to 4 times as much. Superior CBM features include a built-in monitor with 80-column display, business typewriter keyboard, numeric keypad, high capacity disk storage system, printer, telecommunications modem, and excellent word processing/business software. By fall 1980, we will be providing a complete business computer system—including the 8032 CPU, 8050 one megabyte disk drive, hard-copy printer and wordprocessing business applications software. We will, of course, continue to produce and market the popular PET® personal computer system.

Another new product, introduced in June 1980, was our telephone “modem” which enables PET/CBM users to access mainframe computer timesharing/telecomputing networks such as THE SOURCE™, or communicate with other Commodore computers via telephone.

In 1981, new CBM business system products will include 96K and 128K computers, a 1.5 megabyte 8-inch floppy disk drive, several new hard-copy printers, a sales terminal with cash draw, and a high memory capacity hard disk drive. New products designed for the PET® will include a low-cost single floppy disk drive unit and a speech recognition system.

The most significant new product planned for 1981, however, is a new generation of low-cost computers utilizing MOS Technology's VIC. This new small computer will hook up to any black and white or color televi-

sion set and offer a wide variety of special features and peripherals designed for both first-time users and experienced hobbyist/programmers. The VIC computer will be introduced in Japan in October and in other parts of the world soon after.

Semiconductors & Components

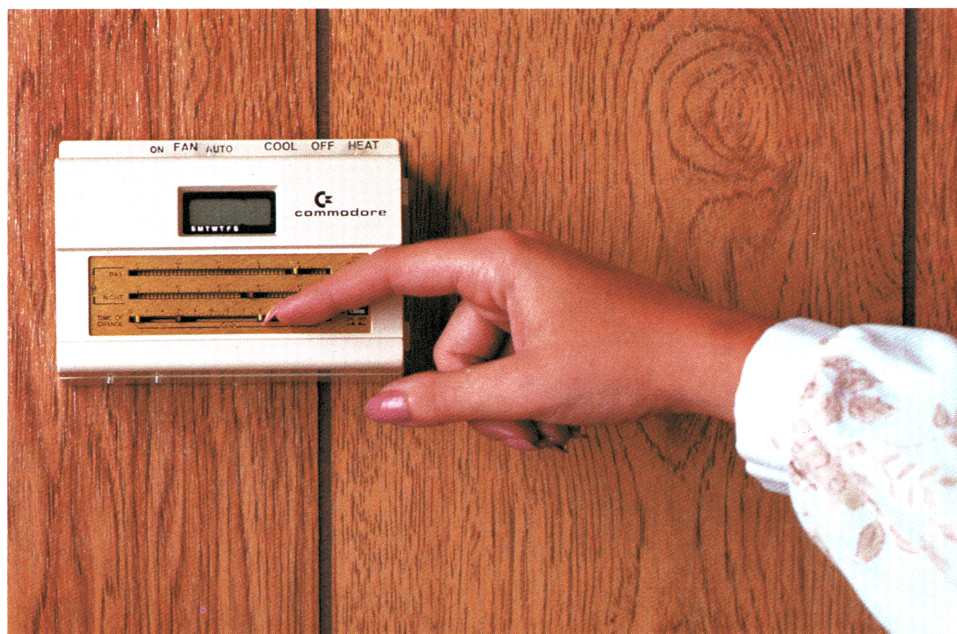
This year, MOS Technology re-engineered virtually all of its products to increase product reliability and reduce manufacturing costs, and introduced industry standard 64K ROMs.

Frontier Manufacturing introduced several new CMOS integrated circuits this year, including the new FR2080 "melody" chip which will be used in various consumer products, and the FR2222, the industry's smallest biphase watch circuit. Plans call for the introduction of 10 new products in 1981, including the FR2070 micro-programmable watch circuit which will be able to provide timekeeping, calculator and musical functions in one product, and the 4500 series single chip micro computer.

Complementary to these activities are the efforts of our Optoelectronics subsidiary to produce large scale liquid crystal displays for use with our 4500 series CMOS, in a variety of product applications.

Consumer Products

For the past several years, Commodore's success with computers and semiconductors has overshadowed our consumer products division. This year, we will be bringing much of our new technology to bear on the consumer marketplace with a variety of new products, including an electronic programmable thermostat "energy computer" which replaces a standard thermostat and enables the home or office user to program the temperature of his home or office—with up to four temperature changes per day, seven days per week. This product will come in two initial models, a heating/cooling model which regulates heating and air conditioning, and a heating-only model.



It is widely expected that well over half of the 90 million "residential-type" thermostats installed in offices and homes in the U.S. will be converted to "set-back" and clock-type thermostats over the coming 10 years. Commodore intends to have a significant share of this market.

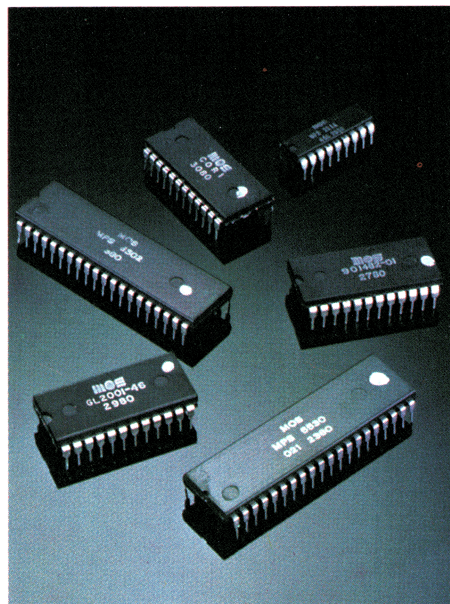
Another new energy product being targeted for 1981 is a product which can reduce the amount of power used in a fluorescent lighting system by as much as 20 percent.

We will also re-enter the digital watch and calculator market with a new line of products which combine fashion with function and provide important price/feature advantages.

Finally, to demonstrate the extent of our creativity, we have developed the world's first cost-effective "musical greeting card"—potentially one of the most significant innovations in this field in more than a decade.

Commodore's new electronic programmable thermostat is the first of a series of new products combining micro-electronics with energy conservation . . . to be marketed by the Consumer Product Division.

This year, the company's semiconductor group introduced a variety of new products including microprocessors, RAMs, ROMs, general logic and time keeping circuits.



Commodore Computers in Action



This Boston law firm uses a Commodore CBM wordprocessing system to track legal cases, speed the preparation of complex documents, and transcribe dictation.

Commodore computers are used in virtually every walk of life, around the world . . . in business, education, engineering, process control, science, research and entertainment.

Our CBM business computer systems are used by retailers, lawyers, realtors, bankers, advertising executives, manufacturers . . . wherever there's a need for wordprocessing, bookkeeping, accounting, inventory control, sales administration . . . not to mention the specialized computing needs of each individual industry. This year, outside software houses developed more business programs than ever for Commodore computers and the coming year will see even more.

In 1979–80, market researchers ranked Commodore's as the dominant educational microcomputer in the world. Entire school systems buy Commodore on the basis of price/performance, and the ability to put more computers on student desks without straining tight educational budgets. In Germany this year, the state of Bavaria chose Commodore as their school system's computer over more than 40 competing systems. In Canada, prestigious institutions like Waterloo University and Sheriden College use Commodore computers to conduct important research in educational computing that will benefit not only coming generations of students, but society as a whole.

Commodore computers are also being used to teach first-time users ABOUT computers . . . at places like "Computertown USA" in Menlo Park, California, and the United Nations International School in New York.

In engineering and process control, our industry-standard IEEE-488 interface bus makes Commodore the most logical choice for controlling instrumentation, industrial machinery, measuring and calibration devices. Commodore computers are reliable "workhorses" in such demanding environments as scientific laboratories, manufacturing plants, engineering facilities, utilities and maintenance shops.

As a self-contained desktop computer, the Commodore PET/CBM has been found to be essentially beneficial for handicapped individuals who are otherwise unable to work, or even communicate. We're proud of our involvement in a variety of important projects internationally which promote the use of computers by the handicapped, and to support the United Nations which has designated 1981 the "Year of the Disabled."

Medical and dental offices make use of Commodore systems to computerize their patient billings, monitor case histories, and provide speedy access to important diagnostic information.



Commodore computers are data processing "workhorses" used in virtually every type of environment, such as a travel bureau in West Germany.

Students at Canada's Sheridan College (pictured) and Waterloo University work with their faculty advisors to develop new and innovative applications for micro-computers while learning about computers and computing in the process.



International Marketing



The Commodore dealer is still our most powerful marketing tool. This year, Commodore's U.S. regional dealer support program provided closer geographic support through seven Commodore owned and operated regional distribution centers.

One of our major strengths as a company is our international marketing organization.

The key is our ability to provide strong direct marketing support in each individual country. The success of this "country" concept is especially apparent in our Computer Systems Division. In the United Kingdom and Germany, for example, we are the leading supplier of microcomputers in the "under \$10,000" range and even in Japan, where we compete against the largest electronics companies in the world, we hold a respectable share of the microcomputer market. In the United States, it has been estimated that Commodore has the second largest number of installed microcomputers, and that we dominate the educational market. Both U.S. and international marketing staffs were bolstered this year with the addition of new personnel to support our business development activities.

In June, 1980 we converted our private U.S. distributor system to a Commodore owned and operated distribution network which will function under the umbrella of a Computer Systems Sales Division. Seven separate regional distribution centers were in place by the end of June, each headed by a general manager who will provide close geographical support to the dealers in his region in the areas of sales, training, promotion, service and warehousing. To introduce this new concept, we established a "Regional Dealer Support Program" in June which resulted in the largest single sales month in the computer division's history.

In spring, 1980, we launched a major national advertising campaign in the U.S. designed to promote Commodore's "presence" and highlight our business and educational computer systems. In addition to magazine advertising and television game show promotions, we provided posters and other point of sale materials to all of our Commodore dealers.

A few of the special events we attended during the year included

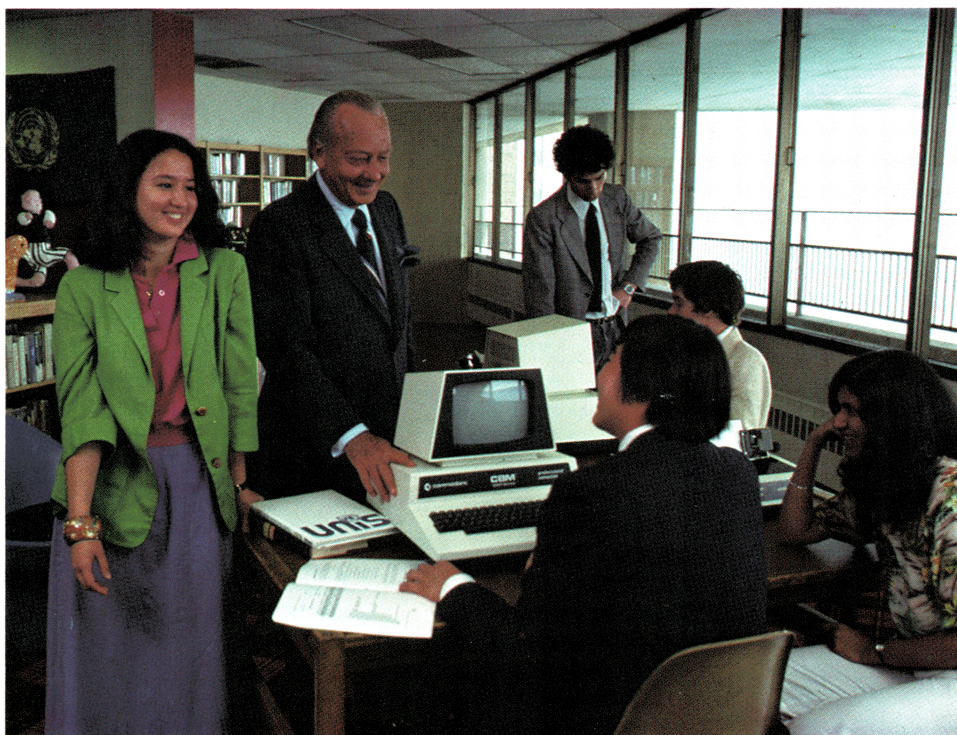
Hanover Fair in West Germany—the largest industrial exhibition in the world; the National Computer Convention and twice-yearly Consumer Electronics Shows in the U.S.; and the first annual PetFair, staged in London by our Commodore U.K. subsidiary. These special events provided high visibility for Commodore products in the national trade and consumer press, among dealers, educators, and association executives.

In the Consumer Products Division, we reorganized our marketing department to prepare for the introduction of our new energy conservation electronics line and to launch our re-entry into the watch and calculator market. During the coming year, we will be much more visible in the consumer electronics field, not only through our new products, but as a result of the innovative marketing strategies being used to introduce them.

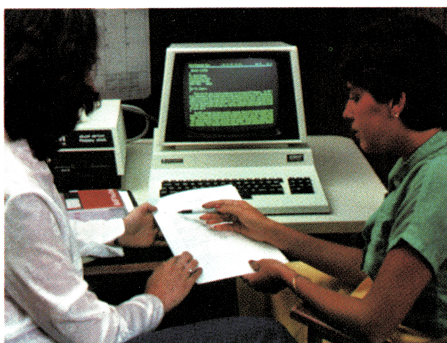
We have also established a marketing department in our MOS Technology division which actively began marketing its products to outside customers in January with excellent success. An initial trade advertising campaign highlighted our ability to deliver prototype ROMs “within 5 weeks” with a promise to buy any customer lunch in Hong Kong if we fail to meet our delivery date.

In the Office Equipment Division, we have expanded our marketing program to include several countries outside of Canada.

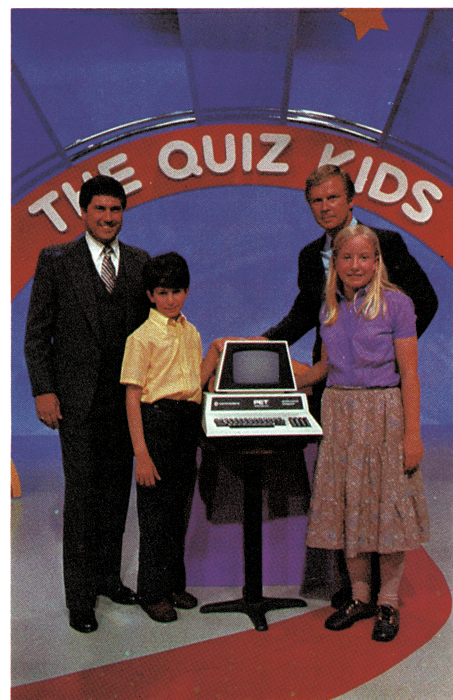
As shown on the accompanying map, Commodore products were sold in nearly 50 countries by the end of the fiscal 1980. We expect to increase our penetration of several more international markets in fiscal 1981 but are adhering to our philosophy of not entering a new country market until we have the production capacity and operations/marketing staff to assure success.



Commodore is a strong supporter of multicultural activities. Pictured is Irving Gould, Chairman of the Board, presenting several computer systems to the United Nations International School in New York.

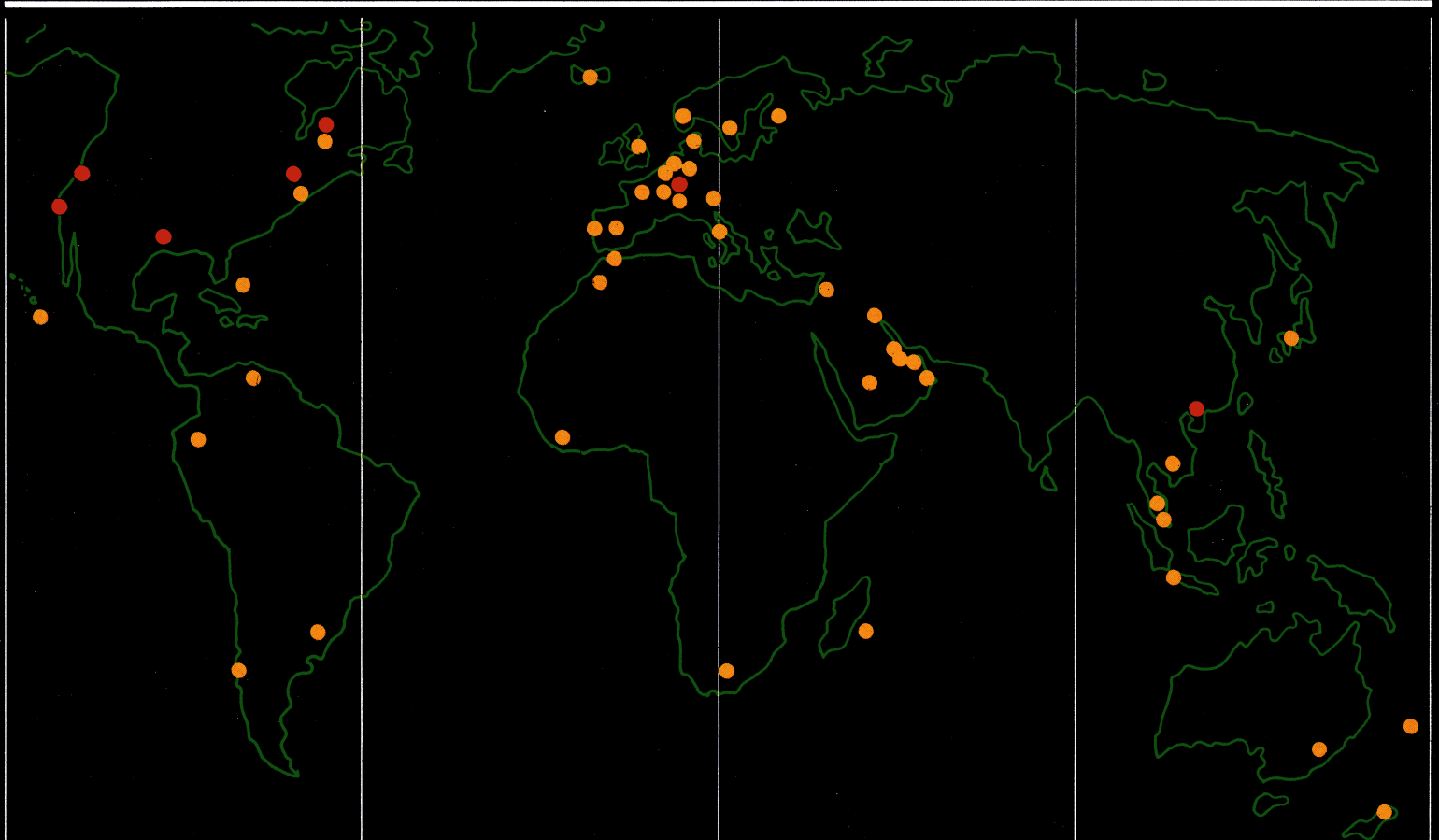


In the United Kingdom and elsewhere, Commodore-sponsored training programs help first-time users become “computer literate” to get the most out of their personal and professional computers.



In the United States, the PET and CBM computers were promoted on a variety of television game shows during fiscal 1980, including Hollywood Squares, Name that Tune, The Price is Right and Quiz Kids.

Commodore International



Sales & Distribution

Argentina	France
Australia	Gibraltar
Austria	Iceland
Bahrain	Indonesia
Bahamas	Israel
Belgium	Italy
Canada	Japan
Chile	Kuwait
Columbia	Luxembourg
Denmark	Malaysia
Finland	Morocco

Netherlands	Spain
New Caledonia	South Africa
New Zealand	Sweden
Norway	Switzerland
Oman	Tahiti
Peru	Thailand
Portugal	United Arab Emirates
Reunion Island	United Kingdom
Qatar	United States
Saudi Arabia	Venezuela
Singapore	West Germany

Manufacturing Facilities

Santa Clara, California
 Costa Mesa, California
 Valley Forge, Pennsylvania
 Dallas, Texas
 Toronto, Canada
 Hong Kong, H.K.
 Braunschweig, W. Germany

Financial Statements

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Management's Discussion and Analysis of the Summary of Operations

Net Sales

Net sales for the year ended 30 June 1980 were up 77% over 1979. The most significant contribution to this increase came from the Computer Systems Division which increased its revenues by \$48.4 million (141%) over 1979. This increase was the result of the substantially increased worldwide market for microcomputers, the introduction of several new products and the reorganization of the Division's marketing network. The company's Electronic Components Division also contributed to the overall increase in sales. Net sales for this Division were up \$8.9 million (89%) reflecting the substantially increased production capacity resulting from a major capital expenditure program initiated during fiscal 1980 allowing the company to meet the growing needs of the external marketplace while satisfying its internal requirements.

The company experienced a 42% sales volume increase in 1979 over 1978 due to further market penetration of existing product lines; development of new products; expansion of its distributor network and the acquisition of Micro Display Systems, Inc.

Cost of Sales/Gross Profit

The growth of gross profit as a percentage of sales (1980—40%; 1979—32%; 1978—30%) is a result of sales mix; consolidation of production facilities; introduction of state of the art assembly and production equipment; discontinuance of less profitable product lines; certain cost reductions experienced through vertical integration and other economies realized as a result of increased productivity.

Operating Expenses

Operating expenses increased by \$16.1 million (124%) during fiscal 1980 and represented 23% of sales as compared to 18% of sales during both 1979 and 1978. This increase reflects the company's reorganization and increased emphasis of its marketing efforts and a further development of the international distributor network; the increased administrative costs associated with the Computer Systems Division as it takes on a more important role for the company; and an expansion of the company's research and development program for new high technology products.

Interest Expense, Net

Interest expense increased by a net \$1.1 million or 52% in 1980 over 1979. This increase was the result of substantially higher short-term borrowings during 1980 which were necessary to provide working capital to support the significant sales growth combined with a much higher prime interest rate experienced during the year. This was offset by the company's ability to take advantage of the above normal returns in the short-term cash deposit market which generated \$2.3 million in interest income for the company during 1980.

Interest expense in 1979 increased by \$1 million (91%) over 1978 as a result of increased borrowing required to support the high sales volume; the acquisition of Micro Display Systems, Inc., and a capital expansion program offset by reduced interest rates.

Provision for Income Taxes

The provision for income taxes as a percentage of pre-tax income represented 11% in 1980, 25% in 1979 and 35% in 1978. The major item impacting 1980's provision was a tax benefit of \$1.7 million (\$.50 per share) related to U.K. "stock relief" representing a reversal of previously deferred taxes. For a further explanation of the difference between the U.S. statutory rate and the rates noted above see Note 3 to "Notes to Consolidated Financial Statements."

Consolidated Fourth Quarter Results

Sales during the fourth quarter of 1980 were \$36.6 million (1979—\$26,600,000). Income before extraordinary item for the quarter was \$6,200,000 in 1980 (1979—\$2,100,000). The increase in sales of 38% for 1980's fourth quarter as compared to the same quarter in 1979 is consistent with the increased sales that the company experienced throughout the year. Income before extraordinary item increased almost 200% in 1980's fourth quarter over 1979's comparable period. This increase was the result of an additional \$10.0 million in sales; improved gross profit due to sales mix and production efficiencies; and lower overall effective tax rates primarily the result of the reversal of U.K. taxes—\$1 million of which was recorded in the fourth quarter.

Consolidated Summary of Operations

	Year Ended 30 June				
	1980	1979	1978	1977	1976
Net Sales	\$125,600,000	\$71,100,000	\$50,200,000	\$46,200,000	\$55,900,000
Gross Profit	50,600,000	23,100,000	15,300,000	11,000,000	11,700,000
Operating Expenses	29,100,000	13,000,000	9,000,000	7,700,000	7,600,000
Interest Expense, net	3,200,000	2,100,000	1,100,000	1,100,000	700,000
	32,300,000	15,100,000	10,100,000	8,800,000	8,300,000
Income before income taxes and extraordinary item	18,300,000	8,000,000	5,200,000	2,200,000	3,400,000
Provision for Income Taxes:					
Taxes on income	3,800,000	2,000,000	1,800,000	700,000	1,700,000
Income after taxes on income, but before reversal of U.K. Taxes	14,500,000	6,000,000	3,400,000	1,500,000	1,700,000
Reversal of U.K. taxes	1,700,000	—	—	—	—
Income before extraordinary item	16,200,000	6,000,000	3,400,000	1,500,000	1,700,000
Extraordinary Item	700,000	500,000	600,000	—	1,200,000
Net Income	\$ 16,900,000	\$ 6,500,000	\$ 4,000,000	\$ 1,500,000	\$ 2,900,000
Earnings Per Share ⁽¹⁾					
Income before extraordinary item	\$4.68 ⁽²⁾	\$1.86	\$1.08	\$.49	\$.59
Extraordinary item	.21	.16	.19	—	.41
Net income	\$4.89	\$2.02	\$1.27	\$.49	\$1.00
Weighted Average Shares ⁽¹⁾	3,465,000	3,240,000	3,157,000	3,044,000	2,898,000

(1) Earnings per share for fiscal years 1976 through 1979 have been restated to reflect stock splits during fiscal 1980.

(2) Includes \$.50 relating to reversal of U.K. taxes.

Consolidated Statements of Operations

	Year Ended	
	30 June 1980	30 June 1979
Net Sales	\$125,600,000	\$71,100,000
Cost of Sales	75,000,000	48,000,000
Gross Profit	50,600,000	23,100,000
Operating Expenses:		
Selling	11,200,000	4,500,000
General and administrative	11,300,000	4,900,000
Research and development (Note 1)	6,600,000	3,600,000
	29,100,000	13,000,000
Income from operations	21,500,000	10,100,000
Interest Expense , net of interest income of \$2,300,000 in 1980	3,200,000	2,100,000
Income before income taxes and extraordinary item	18,300,000	8,000,000
Provision for Income Taxes (Note 3):		
Taxes on income	3,800,000	2,000,000
Income after taxes on income but before reversal of U.K. taxes	14,500,000	6,000,000
Reversal of U.K. taxes	1,700,000	—
Income before extraordinary item	16,200,000	6,000,000
Extraordinary Item (Note 3)	700,000	500,000
Net income	\$ 16,900,000	\$ 6,500,000
Earnings Per Share (Note 1)		
Income before extraordinary item (includes \$.50 relating to reversal of U.K. taxes in 1980)	\$4.68	\$1.86
Extraordinary item	.21	.16
Net income	\$4.89	\$2.02

Consolidated Balance Sheets

Assets	30 June 1980	30 June 1979
Current Assets:		
Cash, including certificates of deposit	\$ 5,100,000	\$ 2,600,000
Accounts receivable, net of \$1,200,000 and \$700,000, respectively	25,300,000	15,300,000
Inventories (Note 1)	36,100,000	23,000,000
Prepaid expenses	600,000	500,000
Total current assets	67,100,000	41,400,000
Property and Equipment, at Cost (Notes 1 and 5)	29,500,000	19,300,000
Less-Accumulated depreciation and amortization	8,100,000	5,000,000
	21,400,000	14,300,000
Other Assets:		
Lease deposits and other assets	400,000	600,000
Cost in excess of fair value of net assets of businesses acquired, net (Notes 1 and 2)	—	1,200,000
	400,000	1,800,000
	\$88,900,000	\$57,500,000

Liabilities and Shareholders' Equity	30 June 1980	30 June 1979
Current Liabilities:		
Short-term debt (Note 4)	\$ 2,600,000	\$11,600,000
Current portion of long-term debt	1,000,000	2,300,000
Accounts payable	14,900,000	10,600,000
Accrued liabilities	6,400,000	3,400,000
Income taxes payable (Note 3)	4,200,000	1,600,000
Total current liabilities	29,100,000	29,500,000
Long-Term Debt (Note 5)	24,300,000	5,500,000
Deferred Income Taxes (Note 3)	—	1,700,000
Shareholders' Equity (Note 6):		
Common stock \$1 par value		
Authorized—5,000,000 shares		
Issued and outstanding—3,300,000 and 1,500,000 shares, respectively	3,300,000	1,500,000
Contributed surplus	1,300,000	3,700,000
Retained earnings	30,900,000	15,600,000
Total shareholders' equity	35,500,000	20,800,000
	\$88,900,000	\$57,500,000

Consolidated Statements of Shareholders' Equity

	Common Stock (\$1 Par Value)	Contributed Surplus	Retained Earnings	Total
Balance, 30 June 1978	\$1,400,000	\$1,800,000	\$ 9,100,000	\$12,300,000
Net income	—	—	6,500,000	6,500,000
Exercise of employee stock options (Note 6)	—	200,000	—	200,000
Issuance of shares for acquisition of Micro Display Systems, Inc. (Note 2)	100,000	1,700,000	—	1,800,000
Balance, 30 June 1979	1,500,000	3,700,000	15,600,000	20,800,000
Net income	—	—	16,900,000	16,900,000
Issuance of shares pursuant to stock splits (Note 6)	1,800,000	(1,800,000)	—	—
Exercise of employee stock options (Note 6)	100,000	200,000	—	300,000
Retirement of common shares (Note 2)	(100,000)	(800,000)	(1,600,000)	(2,500,000)
Balance, 30 June 1980	\$3,300,000	\$1,300,000	\$30,900,000	\$35,500,000

Consolidated Statements of Changes in Financial Position

	Year Ended	
	30 June 1980	30 June 1979
Working Capital was Provided by:		
Income before extraordinary item	\$16,200,000	\$ 6,000,000
Items not requiring working capital—		
Depreciation and amortization	3,500,000	2,500,000
Deferred income taxes	(1,700,000)	1,700,000
Total working capital provided by operations	18,000,000	10,200,000
Extraordinary item	700,000	500,000
Increase in long-term debt	19,800,000	4,100,000
Net book value of property and equipment retired	200,000	1,800,000
Common stock issued upon exercise of stock options	300,000	200,000
Increase (decrease) in other assets	200,000	(400,000)
Total working capital provided	39,200,000	16,400,000
Working Capital was Applied to:		
Purchase of property and equipment	10,600,000	4,400,000
Acquisition of purchased business (Note 2)		
Property and equipment	—	4,100,000
Cost in excess of fair value of net assets	(1,000,000)	1,300,000
Common stock transactions	2,500,000	(1,800,000)
Transfer of long-term debt to current portion	1,000,000	4,000,000
Total working capital applied	13,100,000	12,000,000
Increase in Working Capital	\$26,100,000	\$ 4,400,000
Changes in Working Capital Consist of Increases (Decreases) in:		
Current assets—		
Cash	\$ 2,500,000	\$ 1,800,000
Accounts receivable	10,000,000	9,200,000
Inventories	13,100,000	(2,100,000)
Prepaid expenses	100,000	100,000
Working capital, net, from acquisitions	—	(3,400,000)
	25,700,000	5,600,000
Current liabilities—		
Short-term debt	(9,000,000)	(700,000)
Current portion of long-term debt	(1,300,000)	1,700,000
Accounts payable and accrued liabilities	7,300,000	500,000
Income taxes payable	2,600,000	(300,000)
	(400,000)	1,200,000
Increase in Working Capital	26,100,000	4,400,000
Working Capital, Beginning of Year	11,900,000	7,500,000
Working Capital, End of Year	\$38,000,000	\$11,900,000

Notes to Consolidated Financial Statements

30 June 1980 and 1979

1. Summary of Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Commodore International Limited and all of its subsidiaries. All significant inter-company transactions have been eliminated.

The consolidated financial statements are expressed in United States currency. Non-U.S. monetary assets and liabilities are translated at year-end rates of exchange and non-monetary assets are translated at historical rates. Income and expenses are translated at average rates prevailing during the year except cost of sales and depreciation expense which are translated at historical rates. Gains or losses resulting from translation are included in the consolidated statement of operations. Such gains and losses were not material in 1980 or 1979.

Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories used in determining cost of sales for the two years ended 30 June 1980, were:

	1980	1979	1978
Finished goods	\$19,200,000	\$ 8,300,000	\$ 8,700,000
Raw materials and work-in-process	16,900,000	14,700,000	12,200,000
	<u>\$36,100,000</u>	<u>\$23,000,000</u>	<u>\$20,900,000</u>

Property and Equipment—Major classes of property and equipment are as follows:

Description	30 June		Estimated Useful Lives
	1980	1979	
Land	\$ 1,500,000	\$ 1,500,000	
Machinery and equipment	19,100,000	10,400,000	3-10 years
Buildings and improvements	5,500,000	5,400,000	25 years
Furniture and fixtures	800,000	400,000	5-10 years
Tooling	1,800,000	1,200,000	4 years
Leasehold improvements	800,000	400,000	Life of lease
	<u>\$29,500,000</u>	<u>\$19,300,000</u>	

Depreciation has been provided using primarily the straight-line method over the estimated useful lives of the assets for both financial reporting and income tax purposes.

Expenditures for maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts. Any gain or loss is included in the consolidated statement of operations.

Research and Development Costs—The Company expends all costs of research and development as incurred.

Other Assets—The cost in excess of fair value of net assets of businesses acquired arose primarily in connection with the acquisition of Micro Display Systems, Inc. (see Note 2).

Investment Tax Credit—The Company accounts for U.S. investment tax credits as a reduction of the provision for income taxes in the year in which the related credit is utilized.

Earnings per Share—Earnings per share is calculated using the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each year. The weighted average number of shares used to compute earnings per share was 3,465,000 and 3,240,000 in 1980 and 1979, respectively. The weighted average number of shares for 1979 have been restated to reflect two stock splits during fiscal 1980 (see Note 6). Primary and fully diluted earnings per share are essentially the same.

2. Acquisition

In February, 1979, the Company acquired, in a purchase transaction, all of the outstanding common stock of Micro Display Systems, Inc. (MDSI), a manufacturer of liquid crystal watches, for 100,000 shares of the Company's common stock (225,000 shares after stock splits). The reacquisition and retirement of 100,000 of the shares during 1980 represented an adjustment to the purchase price resulting in the elimination of the cost in excess of fair value of net assets acquired. If MDSI had been acquired as of the beginning of fiscal 1979, unaudited consolidated proforma results would have reflected net sales of \$78,200,000 and net income of \$700,000 (\$.20 per share) in 1979.

3. Income Taxes

The difference between the statutory U.S. Federal income tax rate and the Company's effective tax rate is explained below:

	1980 (Thousands of Dollars)		1979 (Thousands of Dollars)	
	Amount	Percent of Income	Amount	Percent of Income
United States statutory rate	\$8,400	46%	\$3,800	47%
Increases (reductions):				
Net effect of non-U.S. tax rates	(600)	(4)	(300)	(4)
Subsidiaries incorporated in a jurisdiction which does not levy income taxes	(6,400)	(35)	(2,100)	(26)
Losses not included in U.S. consolidated tax return	1,900	10	300	4
Reversal of U.K. taxes	(1,700)	(9)	—	—
Other, net	500	3	300	4
	<u>\$2,100</u>	<u>11%</u>	<u>\$2,000</u>	<u>25%</u>

Utilization of prior year loss carryforwards in the U.S. and certain other countries has been treated as an extraordinary item in the consolidated statements of operations.

At 30 June 1980, the Company's U.S. subsidiaries had net operating loss carryforwards of approximately \$14,000,000 available to reduce future taxable income. The carryforwards have the following expiration dates (000's omitted):

1983	\$ 1,900
1984	1,300
1985	6,100
1986	1,200
1987	3,500
	<u>\$14,000</u>

In addition, the Company has U.S. investment tax credit carryforwards of approximately \$800,000.

In 1980, the Company has recorded a tax benefit of \$1,700,000 (\$.50 per share) related to U.K. "stock relief" representing a reversal of previously deferred taxes.

4. Short-Term Debt

	1980	1979
Notes payable to banks	\$ 600,000	\$ 1,400,000
Lines of credit	2,000,000	1,200,000
Facilities agreements, prime plus .75%	—	6,300,000
Notes payable, prime plus .75%	—	2,700,000
	<u>\$2,600,000</u>	<u>\$11,600,000</u>

The maximum month end borrowings for notes payable to banks during 1980 were \$11,200,000 (1979—\$1,600,000). The average borrowing outstanding during 1980 was \$7,600,000 (1979—\$900,000) at a weighted average interest rate of 14.4% (1979—7.6%).

The Company has lines of credit involving a number of international banks. During fiscal 1980, the highest balance owing under these arrangements was \$5,200,000 (1979—\$1,400,000). The average balance owing was \$3,100,000 (1979—\$900,000) and the weighted average interest rate was 14.8% (1979—8.4%). The weighted average interest rate at 30 June 1980 was 12.7% (1979—7.1%).

In 1979, the Company entered into a facilities agreement with a bank, which provided borrowings up to \$7,000,000 for the Company's U.S. subsidiaries; \$5,000,000 for its European subsidiaries; and a \$5,000,000 letter of credit draft line for its Asian subsidiaries. As of 30 June 1980, the Company entered into a Revolving Credit Agreement with the bank (see Note 5) which converted \$7,000,000 of this facility to long-term and the remaining balance was repaid. The highest month end borrowings under this arrangement in 1980 were \$12,000,000 (1979—\$8,400,000). The average borrowings outstanding during 1980 were \$9,000,000 (1979—\$5,000,000) and the weighted average interest rate was 15.7% (1979—12.4%).

In March 1979, the Company acquired debt of \$2,700,000 payable in one year with weighted average interest in 1980 of 16.5% (1979—12.5%).

Notes to Consolidated Financial Statements

(continued)

5. Long-Term Debt

	1980	1979
Unsecured		
Prime revolving credit, due July, 1982	\$ 4,000,000	\$ —
Short-term lines (see below)	3,000,000	—
Prime plus .25% revolving credit, due June, 1983	7,000,000	—
Prime plus .75% notes payable, due July, 1981	5,000,000	2,000,000
Secured		
Real estate mortgage, 9.5%, due in varying amounts through 2005	1,400,000	1,400,000
Capitalized equipment lease obligations averaging 7.8%, payable in varying amounts through 1986	4,900,000	2,800,000
10% note payable, due January, 1980 collateralized by certain machinery and equipment	—	1,600,000
	25,300,000	7,800,000
Less current portion	1,000,000	2,300,000
	<u>\$24,300,000</u>	<u>\$5,500,000</u>

On 30 June 1980, the Company entered into a \$7,000,000 Revolving Credit Agreement with two banks. The agreement requires, among other things, that the Company maintain certain financial ratios, levels of working capital and net worth, and a compensating balance of 5% of the used portion of the line. The Company utilized \$4,000,000 of this line on 30 June 1980, and the remaining \$3,000,000 subsequent to year end to refinance short-term lines of credit. Accordingly, at 30 June 1980, \$3,000,000 of short-term lines of credit have been classified as long-term debt in accordance with U.S. Financial Accounting Standards Board Statement No. 6.

On 30 June 1980, the Company entered into a second \$7,000,000 Revolving Credit Agreement with a bank. This agreement requires, among other things, that the Company maintain certain financial ratios, levels of net worth and working capital, and a compensating balance equal to 5% of the commitment and 10% of the used portion of the line.

Approximate annual maturities of long-term debt for the five fiscal years after 30 June 1980, are as follows (000's omitted):

1981	\$ 1,000
1982	6,200
1983	15,000
1984	800
1985	800
Later years	1,500

6. Common Stock

Stock Splits—During fiscal year 1980, the Company had two three-for-two stock splits.

Stock Options—In 1974, the Company instituted an Employee Stock Option Plan which was designed to qualify under Section 422 of the U.S. Internal Revenue Code, as amended. Qualified options were granted at market value, expire in five years, and are exercisable in cumulative annual increments of 33%, nine months after the date of grant. There are no further shares available for grant under this plan.

A summary of transactions relating to qualified stock options during 1980 and 1979 is shown below (1979 figures restated to reflect stock splits):

	Number of Shares	Average Price Per Share	Total
Outstanding at 30 June 1978	105,437	\$ 1.76	\$ 186,000
Granted	71,888	8.72	627,000
Exercised	(49,894)	1.52	(76,000)
Cancelled	(32,625)	5.24	(171,000)
Outstanding at 30 June 1979	94,806	5.97	566,000
Granted	57,500	12.56	722,000
Exercised	(61,169)	2.53	(155,000)
Cancelled	(28,762)	11.67	(336,000)
Outstanding at 30 June 1980	<u>62,375</u>	\$12.78	<u>\$ 797,000</u>

Options outstanding at 30 June 1980 were held by nineteen employees and range in exercise price per share from \$8.00 to \$25.92. These options expire on various dates from 12 December 1983 to 21 January 1985. There were 11,875 and 12,935 shares exercisable under the terms of the plan at 30 June 1980 and 1979, respectively.

In 1980, the Board of Directors approved a new Employee Stock Option Plan for certain officers and key employees to purchase up to 250,000 shares of the Company's common stock. Options expire in six years and are exercisable in annual increments of 20% one year from the date of grant. At 30 June 1980, options to purchase 32,750 of the Company's common stock under this plan at an average price per share of \$28.90 (exercise prices range from \$22.00 to \$34.00) were held by ten employees. These options expire on various dates from 30 November 1985 to 12 June 1986.

During 1980 and 1979, the Board of Directors also approved certain non-qualified options under substantially the same terms as the 1980 Plan. At 30 June 1980, non-qualified options to purchase 16,050 shares at an average price per share of \$9.10 (exercise prices per share range from \$3.98 to \$12.00) were held by four employees. These options expire on various dates from 1 July 1984 to 4 September 1985.

7. Leases

Operating Leases

The Company and its subsidiaries occupy certain manufacturing facilities and sales offices under lease agreements expiring at various dates to 2001. Annual rental expenses under these leases were \$1,200,000 in 1980 and \$1,000,000 in 1979. Aggregate minimum rental commitments remaining under these contracts as of 30 June 1980 are as follows:

Year Ended 30 June (000's omitted)	
1981	\$ 900
1982	600
1983	400
1984	200
1985	200
Later years	1,400

Capital Leases

In addition to the above mentioned operating leases, the Company leases certain machinery and equipment under long-term leases which are treated as capital leases. The future minimum lease payments under capital leases less amounts representing interest as of 30 June 1980 are as follows:

Year ended 30 June (000's omitted)	
1981	\$1,300
1982	1,300
1983	1,100
1984	900
1985	700
Later years	<u>300</u>
Total minimum lease payments	5,600
Less: Amount representing interest	<u>700</u>
Capitalized lease obligations	<u>\$4,900</u>

The gross value of property under capital leases included in machinery and equipment as of 30 June 1980 and 1979 is \$6,300,000 and \$3,500,000, respectively.

Notes to Consolidated Financial Statements

(continued)

8. Product Group Information

(000's omitted)

	Product Segments					Consolidated
	Computer Systems	Consumer Products	Electronic Components	Office Equipment	Eliminations	
1980						
Sales to unaffiliated customers	\$82,800	\$11,100	\$18,900	\$12,800	\$ —	\$125,600
Intersegment sales	—	—	9,300	2,600	(11,900)	—
Net sales	<u>\$82,800</u>	<u>\$11,100</u>	<u>\$28,200</u>	<u>\$15,400</u>	<u>\$(11,900)</u>	<u>\$125,600</u>
Income (loss) from operations	<u>\$25,500</u>	<u>\$ (6,900)</u>	<u>\$ 2,400</u>	<u>\$ 1,500</u>	<u>\$ (1,000)</u>	<u>\$ 21,500</u>
Interest expense, net						(3,200)
Income before income taxes and extraordinary item						<u>\$ 18,300</u>
Identifiable assets	<u>\$53,300</u>	<u>\$13,700</u>	<u>\$19,700</u>	<u>\$ 5,900</u>	<u>\$ (3,700)</u>	<u>\$ 88,900</u>
Depreciation expense	<u>\$ 1,000</u>	<u>\$ 300</u>	<u>\$ 1,800</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 3,300</u>
Capital expenditures	<u>\$ 4,900</u>	<u>\$ 300</u>	<u>\$ 4,700</u>	<u>\$ 700</u>	<u>\$ —</u>	<u>\$ 10,600</u>
1979						
Sales to unaffiliated customers	\$34,400	\$15,900	\$10,000	\$10,800	\$ —	\$ 71,100
Intersegment sales	—	—	7,800	700	(8,500)	—
Net sales	<u>\$34,400</u>	<u>\$15,900</u>	<u>\$17,800</u>	<u>\$11,500</u>	<u>\$ (8,500)</u>	<u>\$ 71,100</u>
Income from operations	<u>\$ 6,600</u>	<u>\$ 1,600</u>	<u>\$ 1,300</u>	<u>\$ 800</u>	<u>\$ (200)</u>	<u>\$ 10,100</u>
Interest expense, net						(2,100)
Income before income taxes and extraordinary item						<u>\$ 8,000</u>
Identifiable assets	<u>\$21,800</u>	<u>\$19,000</u>	<u>\$15,000</u>	<u>\$ 4,600</u>	<u>\$ (2,900)</u>	<u>\$ 57,500</u>
Depreciation expense	<u>\$ 300</u>	<u>\$ 500</u>	<u>\$ 1,400</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 2,400</u>
Capital expenditures	<u>\$ 700</u>	<u>\$ 4,500</u>	<u>\$ 2,800</u>	<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 8,500</u>

Geographic Segments

	North America	Europe	Asia	Eliminations	Consolidated
1980					
Sales to unaffiliated customers	\$45,900	\$60,800	\$18,900	\$ —	\$125,600
Intersegment sales	44,500	—	18,800	(63,300)	—
Net sales	<u>\$90,400</u>	<u>\$60,800</u>	<u>\$37,700</u>	<u>\$(63,300)</u>	<u>\$125,600</u>
Income from operations	<u>\$ 3,600</u>	<u>\$18,100</u>	<u>\$ 1,600</u>	<u>\$ (1,800)</u>	<u>\$ 21,500</u>
Interest expense, net					(3,200)
Income before income taxes and extraordinary item					<u>\$ 18,300</u>
Identifiable assets	<u>\$52,400</u>	<u>\$31,200</u>	<u>\$11,200</u>	<u>\$ (5,900)</u>	<u>\$ 88,900</u>
Depreciation expense	<u>\$ 2,800</u>	<u>\$ 100</u>	<u>\$ 400</u>	<u>\$ —</u>	<u>\$ 3,300</u>
Capital expenditures	<u>\$ 9,000</u>	<u>\$ 600</u>	<u>\$ 1,000</u>	<u>\$ —</u>	<u>\$ 10,600</u>
1979					
Sales to unaffiliated customers	\$33,600	\$26,800	\$10,700	\$ —	\$ 71,100
Intersegment sales	20,000	2,800	11,300	(34,100)	—
Net sales	<u>\$53,600</u>	<u>\$29,600</u>	<u>\$22,000</u>	<u>\$(34,100)</u>	<u>\$ 71,100</u>
Income from operations	<u>\$ 7,000</u>	<u>\$ 1,800</u>	<u>\$ 1,500</u>	<u>\$ (200)</u>	<u>\$ 10,100</u>
Interest expense, net					(2,100)
Income before income taxes and extraordinary item					<u>\$8,000</u>
Identifiable assets	<u>\$40,900</u>	<u>\$10,600</u>	<u>\$ 8,900</u>	<u>\$ (2,900)</u>	<u>\$ 57,500</u>
Depreciation expense	<u>\$ 2,100</u>	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ —</u>	<u>\$ 2,400</u>
Capital expenditures	<u>\$ 7,300</u>	<u>\$ 700</u>	<u>\$ 500</u>	<u>\$ —</u>	<u>\$ 8,500</u>

Auditors' Report

To the Shareholders of Commodore International Limited:

We have examined the consolidated balance sheets of Commodore International Limited (a Bahamian Corporation) and subsidiaries as of June 30, 1980 and 1979, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended. We have also examined the accompanying consolidated summary of operations for each of the five fiscal years in the period ended June 30, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Commodore International Limited and subsidiaries as of June 30, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, and the consolidated summary of operations summarizes fairly the results for each of the five fiscal years in the period ended June 30, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Philadelphia, Pennsylvania
July 31, 1980

Common Stock Information*

The high and low quarterly common stock prices on the American Stock Exchange for the past two fiscal years are as follows:

	<u>Fiscal 1980</u> <u>High-Low</u>	<u>Fiscal 1979</u> <u>High-Low</u>
First Quarter	20 ¹³ / ₄	15 ⁵ / ₈ –11
Second Quarter	32 ⁵ / ₈ –16	13 ⁵ / ₈ –6 ¹ / ₈
Third Quarter	39 ⁵ / ₈ –22 ⁵ / ₈	12 –7
Fourth Quarter	35 ¹ / ₄ –25 ¹ / ₄	15 ¹ / ₂ –10 ⁵ / ₈

*All common stock prices have been adjusted to reflect stock splits during fiscal 1980.

Board of Directors

Irving Gould
Chairman of the Board
Nassau, Bahamas

Jack Tramiel
President
Toronto, Ontario

Burton Winberg
President
Rockport Holding, Limited
Toronto, Ontario

Gerald Shefsky
President, Greater York Group
Toronto, Ontario

Leonard I. Schreiber
Attorney-at-Law
New York, New York

Officers

Irving Gould
Chairman of the Board

Jack Tramiel
President

Richard D. Sanford
Executive Vice President
and Secretary
Norristown, Pennsylvania

Christopher T.G. Fish
Vice President
Nassau, Bahamas

David Alderson
Vice President
Hong Kong, H.K.

Charles I. Peddle
Vice President, Advanced Systems
Technology
Santa Clara, California

Gregory A. Pratt
Vice President, Finance
Norristown, Pennsylvania

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Nassau, Bahamas

Executive Office

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Commodore Optoelectronics
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Slough Trading Estate
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Commodore A.G. Schweiz
Dufourstrasse 9
Basel 4010
Switzerland

Transfer Agents and Registrars

The Canadian Bank of
Commerce Trust Company
New York, New York

Canada Permanent Trust Company
Toronto, Ontario

Trust Corporation of
Bahamas Limited
Nassau, Bahamas

Auditors

Arthur Andersen & Co.
Philadelphia, Pennsylvania

Counsel

Seligman, Maynard & Co.
Nassau, Bahamas

Baker & McKenzie
New York, New York

Davies, Ward & Beck
Toronto, Ontario

Leonard I. Schreiber
New York, New York

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